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SCRAPPING INDUSTRIAL ARMAMENTS

BY GORTON JAMES

THROUGHOUT Europe there is widespread apprehension of new impending wars. Mr. Edward A. Filene, of Boston, on his return from a tour in the course of which he studied conditions first hand in nearly all the capitals of Europe, talking with leaders of each country, said that as a result of this apprehension—

> There has come an economic war of most dangerous intensity, which is killing trade and commerce, increasing the cost of living, making high taxes still higher and straining the relations even of friendly nations. . . . Probably the most dangerous manifestation of this economic war now being waged is the tendency that is showing itself to impose export duties on basic raw materials. Should this tendency grow unchecked it would have the effect on the industries of every nation that poison gas had on its unfortunate victims during the war. Modern commerce, our whole industrial structure as it now exists, would be imperiled and a new provocation for war, the greatest the world has ever seen, would be created.

At Versailles a great machinery was set up to deal with cases of international friction after they arise. But that did not go to the root of the matter. Now we have had another international conference in Washington which considered and eliminated some of the most obvious causes of friction, but which limited its consideration to specific "sore spots" in one corner of the world. Economic causes are frequent and pregnant trouble breeders. They lay outside the agenda of the President's Conference, but the world hopes that they will be faced squarely at Genoa. It is to a very important class of economic trouble breeders that Mr. Filene draws attention.

Groups of individuals in the various nations are engaging in a mad scramble to control and monopolize the basic raw materials of the world. The battle is an economic one, and the weapons are those of trade, tariffs and governmental regulations; the most menacing ones to-day being prohibition of exports and export taxes on basic raw materials.

Just before the war Portugal was the only country which attempted as a general policy to control the raw materials produced in its colonies by means of export taxes preferential to the mother country. There were a few isolated cases of preferential taxes which had not yet been abandoned in certain colonies of Spain and Italy, but for the most part such taxes were being removed. France had assimilated many of its colonies into a common customs union, so that trade between them and the mother country was as free as intra-national commerce. It really amounted to preferential tariff relations and resulted in restricting the trade of these colonies to the mother country. A few possessions—St. Pierre and Miquelon, West Africa, and the Pacific Islands—were known as "special régime colonies", and had tariffs containing some undisguised preferential features. Japan abolished the Korean export duties in 1919. The Virgin Islands still levy the few low export duties which were in effect when these islands were taken over from Denmark. Strangely enough Germany had no preferential taxes in her colonies and apparently made no attempt to control their raw materials.

In as much as the founders of our nation in the Constitution forbade export taxes, the United States has had but little experience with this type of control. It learned something of such taxes, however, through the Philippine export tariff which we inherited from Spain. After 1909 taxes were remitted on certain goods consumed in the United States, notably hemp, copra, sugar and tobacco. The immediate result of this policy was disturbance of trade relations with other countries and great dissatisfaction among Philippine producers, who felt that the preferential tax cut off their foreign markets and in effect subsidized those American manufacturers who were using their products. The opposition, in the Philippines, to this preferential tariff became so bitter that it was finally abandoned in 1913.

We must, in all fairness, distinguish, in any discussion of the subject, the purposes for which export taxes may be levied. There have been export taxes for revenue and there have been export taxes for the purpose of conservation. The former are imposed on all, alike, and in some countries where the entire wealth is in raw products, a small tax on exports seems to be the most con-

venient and reasonable way to raise revenue. The States of Brazil, for instance, have depended for their revenues, in times past, entirely on their export duties on coffee and rubber. For conservation a prohibitive export tax may be justifiable, but if it is prohibitive it often might better take the form of a direct government order prohibiting export. For instance, duties for the purpose of conservation have been placed on lumber from British Columbia and from certain Balkan States. These, being applied alike to all buyers, are in the main fair and proper. In some cases they virtually stop exportation and in others they cut down export to shipments for special purposes and thus prevent wholesale destruction of the forests. Canada had a typical experience with an export duty when she imposed a tax in 1866 on pine, oak and spruce logs "to encourage saw-milling by offsetting the American import duty upon lumber". So much bitterness was caused in the United States by that tax that finally, in the Dingley Tariff Act of 1897, it was provided that import duties on lumber should be increased an amount equal to export duties, wherever such were imposed. Canada at last realized that she was creating more ill-will than she was helping her saw-milling, and she removed her export tax.

For purposes of monopolization, unless the monopoly is complete either because there is no other source of supply or because no substitute for the material can be used, the results may be the opposite of what is desired. In such cases the home industry is cut off from its markets and a new industry is forced into existence elsewhere. Turkey's recent experience with the exportation of angora goats to New Mexico is a case in point. She saw the possibility of the establishment of mohair production in the United States and she did not want to lose her monopoly of the raw material. She put an export tax amounting to $500 on each animal, but that did not prevent the continued exportation of goats. In desperation she has removed the tax and replaced it with an order of the Sultan to the effect that no goat shall be exported. The penalty for violation is death.

Another duty, levied for the purpose of monopolization, is the West African tax on palm kernels when going to any country outside the British Empire. The law was enacted on October 7,

1916, and imposed a tax of £1,2*s*,6*d* per long ton of palm kernels. The Nigerian Government of British West Africa, in March, 1919, added to this an export duty of £2 per long ton on all shipments outside the Empire, this law being limited to five years. This tax went into effect on October 20, 1919, covering all shipments from Nigeria proper, the Gold Coast and Sierra Leone. The history of this case is illuminating. Previous to the War the largest consumption of palm kernels was in Germany. Hamburg took the chief share of the exports, crushing the kernels, using the oil in edible margarines and fats, and selling the "cake" to the farmers for cattle feed. England had attempted to encourage the use of the oil-cake by her farmers in order to put her new oil-crushing industry, which had been started in Hull, on a firm basis. She had not been successful to any marked extent, and the oil crushers at Hull had to dispose of their oil-cake in foreign countries. Marseilles, with her soap and perfumery manufacturers, was the next largest consumer of West Africa's palm kernels after Hamburg, getting most of her supplies from French colonies, and Hull lagged considerably behind these two. The exports to other countries were practically nil. Then came the War, shutting off Germany altogether from the sources of palm kernels, and, after the first two years, Hull too was cut off from her supply by the submarine warfare which effectively discouraged trade between West Africa and England.

Meanwhile the United States, which before the War had been becoming more and more dependent on the oil crushers of Europe for the portion of her vegetable oil consumption that exceeded her cottonseed oil output, was developing an oil-crushing industry of her own. Three of the largest cottonseed oil producers erected new large plants, greatly increasing their capacity. In 1916 a committee of the British Colonial Office which had been studying the vegetable oil situation reported that "the German farmers used oil-cake more than British farmers, and that the trade would revert to Germany after the War if left unguarded." It suggested a preferential export tariff on palm kernels from West Africa. Mr. Bonar Law sponsored this and urged immediate legislation in Parliament. The tariff was imposed, and since the submarine situation

discouraged shipments to England and France, vast stores of palm kernels rotted in West Africa, while the United States—with an open way to West Africa via the southern route—developed its vegetable oil industry, using copra from the Philippines, soya beans from Manchuria, and peanuts from new plantations in Texas and from the Orient.

Resolutions against the new and growing policy of control have been passed at most of the various international meetings of the last three years, from the International Chamber of Commerce to the International Labor Convention; in the Supreme Council of the League of Nations, and at the meeting in London in 1920 of the International Economic Conference. And yet, as Signor Tittoni said at the Economic Conferences of the Williamstown Institute of Politics, "not one of the resolutions thus solemnly made and adopted is to-day in the process of execution. . . ."

Why are export taxes so much more a menace to the peace of the world than import taxes? The answer is partly economic and partly psychological. The world is accustomed to import taxes, whereas, export taxes are, in general, a new matter, and the really important point is that they are upsetting established relationships, thus destroying industries in the unfavored countries and driving individuals in those foreign countries into bankruptcy. Goods in international trade are usually sold on a C. I. F. (Cost, Insurance and Freight) basis, seldom including import taxes. The importer pays the tax which his country has imposed, and if he does not like it his grievance is with his own government. Export taxes on the other hand always figure in the price of goods. Again the importer pays, but in this case he pays the tax of a foreign country. On the face of it, the matter is one of "taxation without representation".

The traders do not stop to figure out whether or not economic price readjustments tend to throw the burden back on the vendor in the long run. They merely see that in addition to the price which the seller asks, the tax must be paid. As a matter of fact, however, from an economic standpoint it is probable that where trade is not actually stopped by an export tax the importer pays, in most cases, the lion's share of the tax. John Stuart Mill pointed out, back in 1847, that—

In general there could be little doubt that a country which imposed export taxes would succeed in making foreign countries contribute something to its revenue; . . . if international morality, therefore, were rightly understood and acted upon, such taxes, as being contrary to the universal weal, would not exist. . . . A country cannot be expected to renounce the power of taxing foreigners, unless foreigners will, in return, practice towards itself the same forbearance. The only mode in which a country can save itself from being a loser by the revenue duties imposed by other countries on its commodities is to impose corresponding revenue duties on theirs.

In other words, if one country starts, the rest must follow, and that is what is happening to-day. The newer members of our international community have run wild with this new form of warfare. The little Baltic States have restricted the formerly free movement of commodities to an alarming extent. Esthonia has been extending rapidly her list of export duties on raw materials, so that now her neighbors must pay toll to her if they want to buy from her producers such things as milk powder, garden produce, fish, window glass, raw hides, soap, washing soda, casein, lumber and so on down a long list. Latvia in return put new export duties, in October, 1921, on leather goods, skins, hides, bone dust, butter, wool waste, rags and timber, thus adding to an already long series of articles. Lithuania, to meet these duties, in the same month, revised upward and enlarged her list of export duties on over a hundred items.

The Balkan States, on the other hand, have already tasted the bitterness engendered by this sort of warfare, and during the last year Czechoslovakia, Jugoslavia, and even Bulgaria, have reduced or eliminated a few of their taxes on exports. For the moment this has somewhat relieved the situation, but it is still an open question whether these States can establish reciprocal relations, which will prevent the breaking out anew of this economic warfare, until the larger States of Europe set the example. At present Czechoslovakia is taxing exports of such materials as cellulose, hops and kaolin. Jugoslavia is taxing cereals, hemp, wax, flax, wool, hides, silk cocoons and lumber. Roumania in 1919 enacted a tariff covering all exports at twenty per cent ad valorem. Bulgaria levies export duties on animals, animal products, cereals, vegetables and derivatives thereof, and coal.

Italy is greatly alarmed at the growing list of export taxes in

the countries from which she draws her raw materials. If she is shut off from obtaining supplies for her factories on even terms with other countries, her situation will be serious in the extreme. She has little but her olive oil with which to retaliate.

The Versailles Treaty with Germany recognized the use of export duties as a means of economic warfare by forbidding certain taxes that might hamper the position of other countries. For instance, Article 31 of Chapter II of the Annex to Part III prohibited the imposition of export duties on metals or coal exported to Germany from the Saar Basin or on exports from Germany to the Saar Basin. Article 90 (Section VIII of Part III) enacted freedom from taxes or other restrictions for fifteen years on coal exports to Germany, in case Upper Silesia was transferred to Poland. Article 224 of the Austrian Treaty forbade Poland and Czechoslovakia for fifteen years to levy differential duties on coal for Austria. For a maximum of three years pending conclusion of reciprocal agreements on the supply of raw materials, no export duty or restriction on reasonable quantities of coal or lignite was to be allowed.

Germany, in spite of this agreement, enacted in December, 1919, a tax on export licenses, based on the export value of the goods. This value is calculated by the Ministers of Commerce and Finance when the goods are priced in foreign currency. So long as the internal value of the mark is greater than its value in foreign exchange, this amounts to a sharing of profits between the German Government and the foreign buyer, but when the internal value of the mark falls below its foreign exchange value, the tax operates like any other export tax to discourage exports.

The European export duties, so far discussed, have been taxes that are aimed primarily at partial monopolization, and encouragement of home essential industries at the expense of similar industries in foreign countries. Although they create enmities and international friction, they have one element of fairness in that they bear on every outside country alike. As distinct from these there is a still more menacing type of export tariff, known as preferential duties, in the dominions, colonies and outlying possessions of the larger European countries. New prohibitive export taxes are being levied on goods going to any but the mother

countries, which are threatening the established lines of commerce.

During the War the British Government greatly stimulated the tanning of hides in India, while the tanning of skins was forbidden. Protective export duties were then imposed on September 17, 1919, on the export of both hides and skins to maintain the one industry and to revive the other. These amount to fifteen per cent ad valorem, two-thirds of which is rebated on exports from India to other parts of the British Empire. This tax bears heaviest on the United States, for nearly forty per cent of our imports of goat skins formerly came from India. The glazed kid industry in this country has been built almost wholly on Indian imports. It is understood that "very strong official representations" were made by our State Department protesting against this discrimination, but the tax remains unmodified. Incidentally it is interesting to note that the British Chamber of Commerce has passed resolutions of protest against this tax, while the British Tanners' Federation officially is pleased with it.

The oldest preferential export tariff now in force in the British Empire is that on tin ore from the Federated Malay States, which was established in 1903. There were previously export duties for revenue on tin and tin ore which were not preferential, but in addition to these a prohibitive tax was then placed on all exports except to the United Kingdom and Australia. Sir Frank Swettenham, who was Resident-General at the time when the duty was imposed, explained this duty in a book which he published in 1907. He said: "An American attempt to transfer this tin-smelting to American soil, and so obtain, in time, complete control of Malay tin production, was frustrated by imposing a prohibitive duty on the exportation of tin ore and giving an equivalent rebate on all ore smelted in the Straits Colony." Mr. William S. Culbertson, of the United States Tariff Commission, points out that at that time an American concern was making a first attempt to smelt tin ore in the United States, but he believes there was no danger of this concern monopolizing the Malay tin ore supply, as Sir Frank Swettenham suggested. "Apparently the real reason," says Mr. Culbertson, "for the prohibitive surtax was to prevent any outside competition whatever with the tin smelters of the Straits Settlements."

Another step taken in the British Empire to control its raw materials and to levy toll on the world for them is in the case of the Island of Mauru, formerly a German possession but turned over, by the Allied and Associated Powers, to Great Britain under a mandate. In this Pacific island is the largest supply of high-grade phosphate in the world (except perhaps a deposit recently discovered in Morocco). A private concern, under a concession from the German Government, was working the phosphate and selling freely to all buyers. In 1919, Great Britain, Australia and New Zealand purchased this concession agreeing that the phosphates should be sold at cost to the three Governments. No phosphates could be sold to any other country until the requirements of these three Governments were satisfied, and then only at market price. Australia and New Zealand ratified this agreement at once, but it met vigorous opposition in the British Parliament on the basis that it was contrary to the spirit of the agreements on mandates under the Covenant of the League of Nations. It was finally accepted with an amendment, as follows: "The agreement is hereby confirmed, subject to the provisions of Article XXII of the Covenant of the League of Nations."

Meanwhile Egypt has placed a preferential duty on cotton and hides; South Africa on timber, sugar, hides, skins and diamonds; and now Australia has under consideration a tariff imposing an export duty on wool to all countries outside the Empire. Thus the new British policy of "Empire Protection" is rapidly progressing through the establishment by Dominions and colonies of discriminatory export duties and prohibitions.

Especial note of the developments of these taxes in the British Empire is made because of their striking reversal of her free trade policies, and also because these taxes, more than those of any other country, affect the industries of the United States. It is important to note in this connection that because of the specific prohibition of export duties in the Constitution, the United States cannot retaliate at once by placing an export tax on, say, cotton, which would strike a blow at the Lancashire cotton industry in much the same way that the taxes just described have hit industries in this country.

It would not be amiss, also, to call attention to the fact that

Signor Tittoni, in his Williamstown address, was in error when he said that the prohibition of export taxes in the Constitution was confined to States but did not prohibit the Federal Government from enacting such taxes. This point, on several occasions, has been specifically before the Supreme Court, which has ruled consistently that exportation of all kinds of merchandise from the United States must be free not only from direct taxation but also from any tax which burdens exportation. We have given proof, however, that when occasion requires the Constitution can be amended with rapidity.

England's power in the trade of the world and the example set by her renunciation of her world-wide free trade principles make her actions of peculiar importance at this time. Her new policy of fostering monopolies has hit other countries besides the United States. Italy suffered under her restrictions of coal exports, and now complains that the San Remo agreement between France and England has created a petroleum monopoly which will seriously affect the Italian people.

But England is not alone in this practice. France, with her newly restored control of the iron mines of Alsace and Lorraine, has hastened to put an export tariff on iron and also on bauxite, both of which will fall heavily on other European countries. Argentina's new export duty on grain will be felt in Europe whenever our exports are not sufficient to hold the price at a level where Argentina's farmers and exporters will have to pay her tax. Portugal and Spain are throwing up a barrier of new export duties, and Italy is being forced to retaliate on her few raw materials.

Thus the tide sweeps on. Can the Powers, when they gather at Genoa, meet this new menace to the peace of the world and come to agreements which will be observed? It cannot be done unless all the Great Powers of the world are represented, and are ready to abide by the agreements which they reach. Mr. Filene, in calling attention to the menace of monopolies of basic raw materials and prevention of their free distribution, is pointing to the most dangerous cause of international friction that exists to-day.

GORTON JAMES.